

**STATEMENT FROM BUDGET DIRECTOR ALEX HOLT ON 2013 BUDGET PROPOSAL
CITY COUNCIL COMMITTEE ON BUDGET AND GOVERNMENT OPERATIONS
TUESDAY, OCTOBER 16, 2012**

Good morning, Chairman Austin, Vice Chairman Reilly, and the members of the Committee on Budget and Government Operations. I'm pleased to join you today to discuss Mayor Emanuel's proposal for the 2013 budget.

I share your commitment to strengthening Chicago's long-term financial stability and look forward to working with you to finalize the 2013 budget proposal.

One year ago, we began the difficult process of addressing the City's structural deficit, closing a \$635 million gap by working together and making tough choices. In the end, we were able to implement key initiatives that saved taxpayer dollars, significantly reduced the City's long-term structural deficit, improved the quality of City services, and increased the efficiency of City government. These initiatives ranged from changing the way the City picks up garbage to expanding healthcare options for Chicago communities to implementing a wellness program for City employees.

This year, because of the choices made last year and the structural reforms put into place, the City faced the smallest budget deficit since the 2008 recession. The proposed 2013 budget builds on this progress.

This budget balances the City's finances without raising a single tax or introducing a single new fee.

It encourages job growth by completely eliminating the employee head tax by the end of 2013.

It also makes an important investment in programs that matter to the people of Chicago: programs that enhance the health, safety, and education of our children; programs that will enhance the quality of life in every community; programs that promote small business development; and programs that increase public safety.

Further, because of the reforms made over the past year, we are able to continue building our reserves to strengthen the City's long-term financial stability. The 2013 proposed budget makes a \$15 million investment in the City's reserves, following up on the \$20 million investment made last year.

OVERVIEW

We started this process in July facing a \$369 million budget gap for 2013—nearly half the size of the 2012 gap, but still a sizable deficit.

By September, we had reduced that gap by \$71 million to \$298 million—Chicago's smallest projected gap since the 2008 economic recession. This revised deficit number was due to a combination of better spending controls, reforms, and higher revenue due to economic growth. \$26 million came through additional savings for 2012 and 2013 — \$23 million in health care savings; \$1 million in savings on office supplies due to strategic sourcing efforts; \$1 million from an audit of unused phone lines; and \$1 million through City-County collaboration. \$45 million came from additional revenue for the remainder of 2012 and 2013 — due largely to increases in collections of real property transfer, hotel, sales, and electricity taxes.

We closed the remaining \$298 million deficit with \$67 million in spending cuts and government reforms; \$45 million in personnel savings; \$70 million in healthcare savings; \$10 million in TIF reform; \$24 million in improved debt collection; \$42 million in revenue growth; and \$40 million from refinancing existing debt and bond reimbursements. There are additional details available in the attached handout.

Total net appropriations under the 2013 proposed budget are \$6.54 billion across all local funds. With an additional \$1.81 billion in anticipated grant resources, the total proposed City budget for 2013 is \$8.35 billion. The City's proposed corporate fund budget for 2013 is \$3.16 billion.

The 2013 proposed budget eliminates approximately 275 positions from the 2012 budget, primarily due to a targeted elimination of vacancies that will not impact front-line service delivery. It is important to note that for the 2013 budget, we changed the way we budget personnel, which is why this number is not reflected in the budget books that you have reviewed.

In the past, certain full-time employees were budgeted in hourly lines, which do not show in budgeted position counts. We completed an audit of such open lines and determined that the lines were sometimes overfilled during the course of the year. In order to improve budget controls, increase transparency, and more accurately and effectively account for the City's entire personnel budget, the 2013 budget will move most year-round and full-time hourly workers out of open lines and into regular budgeted positions. Seasonal and part-time work that requires the flexibility that open line budgeting allows will still be budgeted in open lines.

REVENUES

The 2013 revenue projections reflect modest anticipated economic growth, as well as increased efforts to collect debt owed to the City. The projected increase in revenues in 2013 is conservative and based on careful analysis of economic data and the trends we are seeing in our own 2012 collections.

With three-quarters of a year's worth of data available to us, we are projecting to end 2012 with revenues \$42 million above budgeted expectations. This additional revenue is primarily the result of strong performance in economically sensitive taxes such as sales, income, hotel, and real property transfer taxes. The 2013 projections anticipate modest and realistic growth of 1.3% over these 2012 year-end estimates.

Transaction taxes are up 15% over the 2012 budget, owing primarily to an \$18 million increase in collections from real property transfer taxes. In recent years, growth in these revenues was due largely to commercial real estate transactions, but the housing market is now starting to show signs of lasting recovery as well. Home sales in Chicago grew throughout 2012, and home prices are beginning to stabilize. To account for these trends, we have assumed a conservative 1.4% growth in transaction tax revenues over 2012 year-end estimates.

Public utility taxes such as gas, electricity, and telecommunications taxes are expected to generate approximately \$445 million in 2012. This is down from budgeted levels, as these taxes have been affected by low natural gas prices, mild weather, and the move from land lines to cell phones or web-based services. As a result of this downward trend, the 2013 budget keeps these revenues flat with 2012 year-end projections.

Hotel tax revenues are up \$5 million over budget year-to-date and are expected to end the year \$9 million above budgeted expectations. This growth is the result of increasing tourism and business travel to Chicago—as of the end of August, revenue per available room was up 9% and hotel occupancy up 4% over 2011 levels. With a strong convention calendar and new hotel openings ahead, we are anticipating an additional \$4 million in hotel tax revenue in 2013.

Finally, with nine months of data available, sales tax and income tax revenues are projected to end 2012 substantially above budget. Income tax collections by the State through September are up 9% from 2011 levels. Our 2013 projections keep sales tax revenues flat with 2012 year-end estimates and anticipate 10% growth in income tax revenues. While we cannot expect growth to continue at this pace forever, economic indicators point towards growth in 2013 –

businesses are expanding in and moving to Chicago, and the city's unemployment rate is steadily decreasing.

The 2012 budget projected an additional \$40 million in collections from individuals and institutions that already owe the City money but have failed to pay. We now project that we will collect an additional \$70 million by the end of the year, and that we will collect an additional \$24 million in 2013. The 2013 projection is lower because the 2012 collections included a number of large payments that will not be repeated in 2013.

SAVINGS AND EFFICIENCIES

While certain revenues are growing or rebounding from recession levels, it is the reforms and structural changes made over the past year and planned for the coming year that will keep our expenditures in check and our finances stable.

Personnel costs make up the majority of the City's expenses, at approximately 83 percent of the corporate fund budget. We have worked in partnership with unions representing City employees to reach agreements that reduce costs and increase the flexibility of City crews. Specifically, the City and unions have reached 11 agreements that are expected to save the City more than \$42 million over the next six years, including an agreement with Laborers Local 1001 that will help save taxpayers more than \$30 million dollars in that period.

In addition, through a combination of layoffs, attrition, and vacancy reductions, we will eliminate approximately 275 administrative positions this coming year across many different departments, saving another \$20 million dollars. This includes only a very small number of layoffs—approximately a dozen—with the majority of savings due to attrition and vacancy reductions.

Over the past year, the City has also aggressively managed its healthcare costs, and as a result, healthcare costs came in under budget in 2011 and are expected to come in under budget in 2012. The effects of these efforts are expected to save an additional \$20 million in 2013.

Similarly, the City continues to see the financial and operational benefits of other important changes made in 2012.

The transition to a grid-based garbage collection system has enabled the City to use fewer crews to provide the same high-quality weekly refuse collection to Chicago residents, saving millions in operational expenses.

By partnering with community providers, the Department of Public Health reformed the way it offers primary and mental health services, reducing City costs while at the same time increasing access to quality care across Chicago.

Competitive bidding for recycling and tree trimming services ensured that residents are getting the best price for the best services; and a strategic sourcing initiative began the process of ensuring that the City gets the best possible price under all of its contracts.

All of these initiatives will continue to yield savings and efficiencies in 2013, and we continue to look for efficiencies in every area of City government. In 2013, we will consolidate the City's duplicative information technology offices, coordinate our purchases, and adopt smart technologies. This will provide better service to our employees and taxpayers, and will save taxpayers at least \$1 million in 2013.

The efficiencies, savings, and prudent controls on spending that I've outlined, together with recent economic growth and improved revenue, will enable the City to pursue new initiatives that support children and communities and make a difference in the areas that matter most to the people of Chicago.

KEY INVESTMENTS AND REFORMS

Public Safety

A key part of Chicago's public safety efforts is the community policing program, which began in Chicago nearly twenty years ago. However, now, after twenty years, the City's CAPS program has as many people in its downtown office as in the police districts. The 2013 budget proposes moving CAPS resources out of downtown and back into the districts where they belong. This puts commanders in charge of their own community policing offices, and makes them accountable for the results they produce through CompStat.

While the number of officers retiring or leaving the police force has remained basically stable over the years, the number of new recruits has not. To ensure that the Chicago Police Department is at full strength at all times, the 2013 proposed budget establishes a regular

schedule for police recruit classes to address attrition. By the end of 2012, the Chicago Police Department will have 457 recruits in training, the largest number since 2006. The first of those recruits will graduate in December. In addition to those 457 recruits, there will be quarterly classes of 125 recruits each in 2013.

The proposed budget also gives CPD additional funding for overtime in 2013. This additional funding, in combination with full staffing at CPD, will allow CPD to have weekend surge overtime throughout the year, rather than just for weekends over the summer.

Programs for Children

The 2013 proposed budget makes a significant investment in the health, safety, and education of the children of Chicago. The 2013 proposed budget increases funding for after school and summer job programs, bringing the total number of children served to more than 20,000; and increases early childhood education with a three-year investment serving 5,000 children in full-day pre-kindergarten.

Further, using savings from identifying and eliminating healthcare fraud, the City is investing \$1.5 million in expanded vision screenings for CPS students, providing free eye exams and eyeglasses for 23,000 additional students in 2013.

Small Business Growth

The proposed 2013 budget restructures the City's business assistance program by turning it into a one-stop-shop for business owners, offering end-to-end case management and access to counseling and financial assistance, and ensuring that City Hall serves as a partner to the city's job creators, not an obstacle.

The new business assistance center will be led by a Chief Small Business Officer, who will be part of the leadership team at the Department of Business Affairs and Consumer Protection and will work closely with all City departments to improve the delivery of services to Chicago's small business owners.

Human Services

The Department of Family and Support Services will continue to partner with non-profit organizations. By sharing responsibilities with non-profits at our six DFSS service centers, we can provide more complete and holistic services at a lower cost. We can then use these savings to provide 3,000 more women and children with domestic violence support services.

We are also revamping our emergency food box program to serve more people at a lower cost. Currently, we spend \$1.9 million to provide 57,000 food boxes that mostly contain canned and boxed foods. By partnering with food pantries, for the same amount of funding, we can provide more than 150,000 additional food boxes containing fresh fruits and vegetables at nearly 400 facilities across the city. This will ensure that families have greater access to healthier food choices.

Head Tax

The elimination of the Employers' Expense Tax began on July 1, 2012, when the head tax rate was cut in half from \$4 per employee per month to \$2 per employee per month. In order to further encourage business development and job creation in Chicago, the 2013 proposed budget eliminates the tax entirely on December 31, 2013 – earlier than the Mayor originally pledged to.

Competitive Bidding for City Services

Over the past year, the City introduced competitive bidding to recycling services, saving millions and enabling the City to expand recycling services citywide to 340,000 additional households by the end of 2013.

We extended this competition to tree trimming in 2012. City crews substantially underbid private contractors, reducing the cost of providing these services in 2013 by \$1.3 million. These savings will be reinvested in maintaining and protecting the city's trees.

Competitive bidding will not be limited to streets and sanitation work, but will be expanded to include professional services as well, starting with legal services for worker's compensation cases. In 2013, we will establish guidelines to compare our corporation counsel's performance against outside law firms handling worker's compensation cases. By comparing a number of different factors, including cost, time, and outcomes, we can improve our handling of cases to ensure that we are serving taxpayers and City employees in the most efficient and effective way possible.

Quality of Life Initiatives

The 2013 budget recommends an additional \$3.2 million for forestry operations, which would fulfill 20,000 additional tree trim requests, enhancing neighborhood beauty and safety across Chicago.

We will also expand the rodent abatement program through a new temporary return to work program for Streets and Sanitation employees. Employees who have work restrictions due to

injuries will work on the City's rodent abatement program until they are able to return to their original assignment. Through this program, the City expects to bait as many as 1,800 additional alleys in 2013.

In 2012, we implemented an effective 'blitz' approach to graffiti removal, which enabled the City to utilize these resources in the most efficient way possible. In 2013, we will bolster these efforts by increasing the resources dedicated to graffiti removal, allowing the City to address an additional 40,000 requests in 2013.

CONCLUSION

The proposed 2013 budget builds on the important work that we began last year. We have made great strides in eliminating the structural deficit, and we have increased the efficiency of City government without losing sight of the services that matter most to the people of Chicago. I look forward to continuing this progress with you over the year to come.

2013 Budget Recommendations--Closing the Gap

ORIGINAL GAP	\$369,000,000
2012-2013 Cost Savings	\$26,000,000
2011-2012 Healthcare savings	\$23,000,000
Strategic Sourcing - Office Supply Reductions	\$1,000,000
Telecom Savings	\$1,000,000
City-County Collaborations	\$1,000,000
2012-2013 Revenue Growth	\$45,000,000
2012 Improved Revenue Projections	\$20,000,000
2013 Improved Revenue Projections	\$25,000,000
REVISED GAP	\$298,000,000
Cutting Spending and Reforming Government (examples)	\$67,000,000
Strategic sourcing savings	\$10,000,000
IT Savings - consolidation, contract savings and auditing	\$5,800,000
Energy efficiency savings	\$5,000,000
Waste disposal savings from City-wide recycling	\$2,300,000
Legal and court reporting expenses	\$1,700,000
FMLA reform	\$1,000,000
Personnel Savings	\$45,000,000
Layoffs, attrition and vacancy sweeps	\$20,000,000
2011-2012 personnel savings	\$20,000,000
Labor agreement savings	\$5,000,000
Healthcare Savings	\$70,000,000
2013 reforms and savings	\$20,000,000
2011-2012 reforms and savings	\$50,000,000
TIF Reform	\$10,000,000
Surplus	\$5,000,000
TIF termination	\$2,000,000
TIF expiration	\$3,000,000
Improved Debt Collection	\$24,000,000
Revenue Growth	\$42,000,000
Taxi medallion sale/lease	\$14,000,000
Municipal marketing	\$18,000,000
Additional 2013 projected revenue growth	\$9,000,000
Refinancing existing debt and bond reimbursements	\$40,000,000

2013 Budget Hearing

MBE/WBE Data

Period: N/A

Total Purchases: \$

	MBE	WBE	Total MBE/WBE Purchases
Asian	\$xx (xx%)	\$xx (xx%)	
African-American	\$xx (xx%)	\$xx (xx%)	
Hispanic	\$xx (xx%)	\$xx (xx%)	
Total Spending	\$xx (xx%)	\$xx (xx%)	\$xx(xx%)

Staffing Data

Department Ethnicity and Gender				
	Male	Female	Total	%
Asian	2	-	2	5.6
Black	5	5	10	27.8
Hispanic	1	2	3	8.3
White	7	14	21	58.3
Total	15	21	36	100
	41.7%	58.3%		

New Hires Ethnicity and Gender				
	Male	Female	Total	%
Asian	-	-	-	-
Black	-	1	1	16.7
Hispanic	-	1	1	16.7
White	2	2	4	66.6
Total	2	4	6	100
	33.3%	66.7%		

Department Managers Ethnicity and Gender				
	Male	Female	Total	%
Asian	1	-	1	12.5
Black	1	1	2	25
Hispanic	-	1	1	12.5
White	-	4	4	50
Total	2	6	8	100
	25%	75%		

Interns

[illegible]

**COUNCIL
BUDGET 2013
Proposed**

